



REVISIONS TO THE IRBA CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS (REVISED NOVEMBER 2018) FEE-RELATED PROVISIONS OF THE CODE

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The IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018) adopted the *International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (Including International Independence Standards)* published by the International Federation of Accountants (IFAC), which is used with the permission of IFAC. South African adaptations appear in underlined and *in italics*.

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 410

FEES

Introduction

- 410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 410.2 Section 330 sets out application material relevant to applying the conceptual framework where the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to audit clients.

Requirements and Application Material

General

- 410.3 A1 Fees for professional services are usually negotiated with and paid by an audit client and might create threats to independence. This practice is generally recognized and accepted by intended users of financial statements.
- 410.3 A2 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for audit clients that are public interest entities.
- 410.3. A3 For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of financial statements. Where reference is made to the fee for the audit of the financial statements, this does not include any fee for an audit of special purpose financial statements or a review of financial statements. (Ref: Para. R410.23(a), 410.25 A1 and R410.31(a))

Fees Paid by an Audit Client

- 410.4.A1 When fees are negotiated with and paid by an audit client, this creates a self-interest threat and might create an intimidation threat to independence.
- 410.4 A2 The application of the conceptual framework requires that before a firm or network firm accepts an audit or any other engagement for an audit client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when

facts and circumstances change during the engagement period for the audit.

410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client include:

- The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
- Any linkage between fees for the audit and those for services other than audit and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- Whether the fee is for services to be provided by the firm or a network firm.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The operating structure and the compensation arrangements of the firm and network firms.
- The significance of the client, or a third party referring the client, to the firm, network firm, partner or office.
- The nature of the client, for example whether the client is a public interest entity.
- The relationship of the client to the related entities to which the services other than audit are provided, for example when the related entity is a sister entity.
- The involvement of those charged with governance in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of the audit and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the firm's audit work is subject to the review of an independent third party, such as an oversight body.

410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly the existence of a quality management system designed and implemented by the firm in accordance with quality management standards issued by the IAASB) might also impact the evaluation of whether the threats to independence are at an acceptable level.

410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Audit Fees

410.5 A1 Determining the fees to be charged to an audit client, whether for audit or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the audit fee paid by the audit client include:

- The firm's commercial rationale for the audit fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the audit fee.

410.5 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the audit engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the audit engagement review the work performed.

Impact of Other Services Provided to an Audit Client

R410.6 Subject to paragraph R410.7, a firm shall not allow the audit fee to be influenced by the provision of services other than audit to an audit client by the firm or a network firm.

410.6 A1 The audit fee ordinarily reflects a combination of matters, such as those identified in paragraph 410.23 A1. However, the provision of other services to an audit client is not an appropriate consideration in determining the audit fee.

R410.7 As an exception to paragraph R410.6, when determining the audit fee, the firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than audit to an audit client.

Contingent Fees

410.8 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R410.9 A firm shall not charge directly or indirectly a contingent fee for an audit engagement.

R410.10 A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an audit client, if:

- (a) The fee is charged by the firm expressing the opinion on the financial statements and the fee is material or expected to be material to that firm;
- (b) The fee is charged by a network firm that participates in a significant part of the audit and the fee is material or expected to be material to that firm; or
- (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the audit of a material amount in the financial statements.

410.10 A1 Paragraphs R410.9 and R410.10 preclude a firm or a network firm from entering into certain contingent fee arrangements with an audit client. Even if a contingent fee arrangement is not

precluded when providing a non-assurance service to an audit client, it might still impact the level of the self-interest threat.

410.10 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the financial statements.

410.10 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee

410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor's independence.

410.11 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than audit to the audit fee.
- The length of time during which a large proportion of fees for services other than audit to the audit fee has existed.
- The nature, scope and purposes of the services other than audit, including:
 - Whether they are recurring services.
 - Whether law or regulation mandates the services to be performed by the firm.

410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.
- Reducing the extent of services other than audit provided to the audit client.

Total Fees – Overdue Fees

410.12 A1 The level of the self-interest threat might be impacted if fees payable by an audit client for the audit or services other than audit are overdue during the period of the audit engagement.

- 410.12 A2 It is generally expected that the firm will obtain payment of such fees before the audit report is issued.
- 410.12 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:
- The significance of the overdue fees to the firm.
 - The length of time the fees have been overdue.
 - The firm's assessment of the ability and willingness of the audit client to pay the overdue fees.
- 410.12 A4 Examples of actions that might be safeguards to address such a threat include:
- Obtaining partial payment of overdue fees.
 - Having an appropriate reviewer who did not take part in the audit engagement review the audit work.
- R410.13** When a significant part of the fees due from an audit client remains unpaid for a long time, the firm shall determine:
- (a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in section 511 are applicable; and
 - (b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement.

Total Fees – Fee Dependency

All Audit Clients

- 410.14 A1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from audit and other services from that client impact the level of the self-interest threat and create an intimidation threat.
- 410.14 A2 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.
- 410.14 A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:
- The operating structure of the firm.
 - Whether the firm is expected to diversify such that any dependence on the audit client is reduced.
- 410.14 A4 Examples of actions that might be safeguards to address such threats include:
- Having an appropriate reviewer who is not a member of the firm review the audit work.
 - Reducing the extent of services other than audit provided to the audit client.
 - Increasing the client base of the firm to reduce dependence on the client.
 - Increasing the extent of services provided to other clients.
- 410.14 A5 A self-interest or intimidation threat is created when the fees generated by a firm from an audit

client represent a large proportion of the revenue of one partner or one office of the firm.

410.14 A6 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the audit client to the partner or office.
- The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.

410.15 A7 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit engagement review the audit work.
- Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than audit provided by the partner or office to the audit client.
- Increasing the client base of the partner or the office to reduce dependence on the client.
- Increasing the extent of services provided by the partner or the office to other clients.

Audit Clients that are Not Public Interest Entities

R410.15 When for each of five consecutive years total fees from an audit client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:

- (a) Prior to the audit opinion being issued on the fifth year's financial statements, have a registered auditor, who is not a member of the firm expressing the opinion on the financial statements, review the fifth year's audit work; or
- (b) After the audit opinion on the fifth year's financial statements has been issued, and before the audit opinion is issued on the sixth year's financial statements, have a registered auditor, who is not a member of the firm expressing the opinion on the financial statements, or a professional body review the fifth year's audit work.

R410.16 If the total fees described in paragraph R410.15 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R410.15 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the firm from the client, and if so, apply it.

R410.17 When two or more firms are engaged to conduct an audit of the client's financial statements, the involvement of the other firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.15 (a), if:

- (a) The circumstances addressed by paragraph R410.15 apply to only one of the firms expressing the audit opinion; and
- (b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.

Audit Clients that are Public Interest Entities

- R410.18** When for each of two consecutive years the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the audit opinion being issued on the second year's financial statements, a review, consistent with the objective of an engagement quality review, performed by a registered auditor who is not a member of the firm expressing the opinion on the financial statements ("pre-issuance review") might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.
- R410.19** When two or more firms are engaged to conduct an audit of the client's financial statements, the involvement of the other firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.18, if:
- (a) The circumstances addressed by paragraph R410.18 apply to only one of the firms expressing the audit opinion; and
 - (b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.
- R410.20** Subject to paragraph R410.21, if the circumstances described in paragraph R410.18 continue for five consecutive years, the firm shall cease to be the auditor after the audit opinion for the fifth year is issued.
- R410.21** As an exception to paragraph R410.20, the firm may continue to be the auditor after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:
- (a) The firm consults with a regulatory or professional body in the relevant jurisdiction and it concurs that having the firm continue as the auditor would be in the public interest; and
 - (b) Before the audit opinion on the sixth and any subsequent year's financial statements is issued, the firm engages a registered auditor, who is not a member of the firm expressing the opinion on the financial statements, to perform a pre-issuance review.
- 410.21 A1 A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the audit engagement, having regard to the nature and location of the client's business.

Transparency of Information Regarding Fees for Audit Clients that are Public Interest Entities

Communication About Fee-related Information with Those Charged with Governance

- 410.22 A1 Communication by the firm of fee-related information (for both audit and services other than audit) with those charged with governance assists in their assessment of the firm's independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of audit work and impact on the audit fee.

Fees for the Audit of the Financial Statements

- R410.23** Subject to paragraph R410.24, the firm shall communicate in a timely manner with those

charged with governance of an audit client that is a public interest entity:

- (a)** Fees paid or payable to the firm or network firms for the audit of the financial statements on which the firm expresses an opinion; and
- (b)** Whether the threats created by the level of those fees are at an acceptable level, and if not, any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.23 A1 The objective of such communication is to provide the background and context to the fees for the audit of the financial statements on which the firm expresses an opinion to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
 - The scale, complexity and geographic spread of the audit client's operations.
 - The time spent or expected to be spent commensurate with the scope and complexity of the audit.
 - The cost of other resources utilised or expended in performing the audit.
 - The quality of record keeping and processes for financial statements preparation.
- Adjustments to the fees quoted or charged during the period of the audit, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the audit that impacted the fees.

410.23 A2 The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

R410.24 As an exception to paragraph R410.23, the firm may determine not to communicate the information set out in paragraph R410.23 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a)** The entity is consolidated into group financial statements prepared by that other public interest entity; and
- (b)** The firm or a network firm expresses an opinion on those group financial statements.

Fees for Other Services

R410.25 Subject to paragraph R410.27, the firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:

- (a)** The fees, other than those disclosed under paragraph R410.23 (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion; and
- (b)** As set out in paragraph 410.11 A1, where the firm has identified that there is an impact

on the level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of fees for services other than audit relative to the audit fee:

- (i) Whether such threats are at an acceptable level; and
- (ii) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.25 A1 The objective of such communication is to provide the background and context to the fees for other services to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees for other services that are required by law or regulation.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees.
- The proportion of fees referred to in paragraph R410.25(a) to the aggregate of the fees charged by the firm and network firms for the audit of the financial statements on which the firm expresses an opinion.

R410.26 The firm shall include in the communication required by paragraph R410.25(a) the fees, other than those disclosed under paragraph R410.23(a), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm, when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence.

410.26 A1 Factors the firm might consider when determining whether the fees, other than those disclosed under paragraph R410.23(a), charged to such other related entities, individually and in the aggregate, for the provision of services by the firm or a network firm are relevant to the evaluation of the firm's independence include:

- The extent of the audit client's involvement in the appointment of the firm or network firm for the provision of such services, including the negotiation of fees.
- The significance of the fees paid by the other related entities to the firm or a network firm.
- The proportion of fees from the other related entities to the fees paid by the client.

R410.27 As an exception to paragraph R410.25, the firm may determine not to communicate the information set out in paragraph R410.25 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity is consolidated into group financial statements prepared by that other public interest entity; and
- (b) The firm or a network firm expresses an opinion on those group financial statements.

Fee Dependency

R410.28 Where the total fees from an audit client that is a public interest entity represent, or are likely to

represent, more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance:

- (a) That fact and whether this situation is likely to continue;
- (b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R410.18); and
- (c) Any proposal to continue as the auditor under paragraph R410.21.

Public Disclosure of Fee-related Information

410.29 A1 In view of the public interest in the audits of public interest entities, it is beneficial for stakeholders to have visibility about the professional relationships between the firm and the audit client which might reasonably be thought to be relevant to the evaluation of the firm's independence. In a wide number of jurisdictions, there already exist requirements regarding the disclosure of fees by an audit client for both audit and services other than audit paid and payable to the firm and network firms. Such disclosures often require the disaggregation of fees for services other than audit into different categories.

R410.30 If laws and regulations do not require an audit client to disclose audit fees, fees for services other than audit paid or payable to the firm and network firms and information about fee dependency, the firm shall discuss with those charged with governance of an audit client that is a public interest entity:

- (a) The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and
- (b) The information that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence.

410.30 A1 Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include:

- Comparative information of the prior year's fees for audit and services other than audit.
- The nature of services and their associated fees as disclosed under paragraph R410.31(b).
- Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.

R410.31 After the discussion with those charged with governance as set out in paragraph R410.30, to the extent that the audit client that is a public interest entity does not make the relevant disclosure, subject to paragraph R410.32, the firm shall publicly disclose:

- (a) Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion;
- (b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has

direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion;

- (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence; and
- (d) If applicable, the fact that the total fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.

410.31 A1 The firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the firm's independence, such as the examples described in paragraph 410.30 A1.

410.31 A2 Factors the firm might consider when making the determination required by paragraph R410.31(c) are set out in paragraph 410.26 A1.

410.31 A3 When disclosing fee-related information in compliance with paragraph R410.31, the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the firm's website.
- In the firm's transparency report.
- In an audit quality report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the auditor's report.

R410.32 As an exception to paragraph R410.31, the firm may determine not to publicly disclose the information set out in paragraph R410.31 relating to:

- (a) A parent entity that also prepares group financial statements provided that the firm or a network firm expresses an opinion on the group financial statements; or
- (b) An entity (directly or indirectly) wholly-owned by another public interest entity provided that:
 - (i) The entity is consolidated into group financial statements prepared by that other public interest entity; and
 - (ii) The firm or a network firm expresses an opinion on those group financial statements.

Considerations for Review Clients

R410.33 This section sets out requirements for a firm to communicate fee-related information of an audit client that is a public interest entity and to disclose publicly fee-related information to the extent that the client does not disclose such information. As an exception to those requirements, the firm may determine not to communicate or pursue disclosure of such information where a review client is not also an audit client.

CONSEQUENTIAL AND CONFORMING AMENDMENTS

SECTION 120

THE CONCEPTUAL FRAMEWORK

....

Considerations for Audits, Reviews and Other Assurance Engagements

Independence

120.15 A1 Registered auditors are required by *Independence Standards* to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit or assurance team member's integrity, objectivity or professional scepticism has been compromised.

120.15 A2 *International Independence Standards* set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Registered auditors and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

120.15A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of audits, reviews and other assurance engagements, the existence of a quality management system designed and implemented by a firm in accordance with the quality management standards issued by the IAASB is an example of such conditions, policies and procedures.

SECTION 320

PROFESSIONAL APPOINTMENT

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Requirements and Application Material

Client and Engagement Acceptance

General

- 320.3 A1 Threats to compliance with the principles of integrity or professional behavior might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behavior.
- 320.3 A2 ...
- 320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.
- 320.3 A4 Factors that are relevant in evaluating the level of such a threat include:
- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
 - Knowledge of relevant industries or subject matter.
 - Experience with relevant regulatory or reporting requirements.
 - The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.
 - The level of fees and the extent to which they have regard to the resources required, taking into account the *registered auditor's* commercial and market priorities.
- 320.3 A5 Examples of actions that might be safeguards...

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

...

Application Material

Level of Fees

330.3 A1 The level of fees might impact a *registered auditor's* ability to perform professional services in accordance with **technical and** professional standards.

330.3 A2 A *registered auditor* might quote whatever fee is considered appropriate. Quoting a fee lower than another *registered auditor* is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.

330.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are **determined** and which professional services **are covered**.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Adjusting the level of fees or the scope of the engagement.
- Having an appropriate reviewer review the work performed.

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

400.1 It is in the public interest and required by the Code that *registered auditors* be independent when performing audit or review engagements.

400.2 This Part applies to both audit and review engagements **unless otherwise stated**. The terms "audit," "audit team," "audit engagement," "audit client," and "audit report" apply equally to review, review team, review engagement, review client, and review engagement report.

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

SECTION 905

FEES

Introduction

- 905.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 905.2 Fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to assurance clients.

Requirements and Application Material

Fees Paid by an Assurance Client

- 905.3 A1 When fees are negotiated with and paid by an assurance client, this creates a self-interest threat and might create an intimidation threat to independence.
- 905.3 A2 The application of the conceptual framework requires that before a firm accepts an assurance engagement for an assurance client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period.
- 905.3 A3 Factors that are relevant in evaluating the level of threats created when fees are paid by the assurance client include:
- The level of fees for the assurance engagement and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
 - The extent of any dependency between the level of the fee for, and the outcome of, the service.
 - The level of the fee in the context of the service to be provided by the firm or a network firm.
 - The significance of the client to the firm or partner.
 - The nature of the client.
 - The nature of the assurance engagement.
 - The involvement of those charged with governance in agreeing fees.

- Whether the level of the fee is set by an independent third party, such as a regulatory body.

905.3 A4 The conditions, policies and procedures described in paragraphs 120.15 A3 (particularly the existence of a quality management system designed and implemented by a firm in accordance with quality management standards issued by the IAASB) might also impact the evaluation of whether the threats to independence are at an acceptable level.

905.3 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Fees for Assurance Engagements

905.4 A1 Determining the fees to be charged to an assurance client, whether for assurance or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

905.4 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the fee for an assurance engagement when paid by the assurance client include:

- The firm's commercial rationale for the fee for the assurance engagement.
- Whether undue pressure has been, or is being, applied by the client to reduce the fee for the assurance engagement.

905.4 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the assurance engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

Contingent Fees

905.5 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R905.6 A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

R905.7 A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement.

905.7 A1 Paragraphs R905.6 and R905.7 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded

when providing a non-assurance service to an assurance client, it might still impact the level of the self-interest threat.

905.7 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.7 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees—Overdue Fees

905.8 A1 The level of the self-interest threat might be impacted if fees payable by the assurance client for the assurance engagement or other services are overdue during the period of the assurance engagement.

905.8 A2 It is generally expected that the firm will obtain payment of such fees before the assurance report is issued.

905.8 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the firm.
- The length of time the fees have been overdue.
- The firm's assessment of the ability and willingness of the client or other relevant party to pay the overdue fee.

905.8 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

R905.9 When a significant part of the fees due from an assurance client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 911 are applicable; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement.

Total Fees—Fee Dependency

- 905.10 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on and concern about the potential loss, of fees from that client impact the level of the self-interest threat and create an intimidation threat.
- 905.10 A2 A self-interest and intimidation threat is created in the circumstances described in paragraph 905.10 A1 even if the assurance client is not responsible for negotiating or paying the fees for the assurance engagement.
- 905.10 A3 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.
- 905.10 A4 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:
- The operating structure of the firm.
 - Where the firm is expected to diversify such that any dependence on the assurance client is reduced.
- 905.10 A5 Examples of actions that might be safeguards to address such threats include:
- Reducing the extent of services other than assurance engagements provided to the client.
 - Increasing the client base of the firm to reduce dependence on the assurance client.
- 905.10 A6 A self-interest or intimidation threat is created when the fees generated by a firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.
- 905.10 A7 Factors that are relevant in evaluating the level of such threats include:
- The qualitative and quantitative significance of the assurance client to the partner.
 - The extent to which the compensation of the partner is dependent upon the fees generated from the client.
- 905.10 A8 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:
- Having an appropriate reviewer who was not an assurance team member review the work.
 - Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the assurance client.
 - Increasing the client base of the partner to reduce dependence on the client.

EFFECTIVE DATE

- For the revised Section 410 and consequential amendments to Part 4A: effective for audits of financial statements for periods beginning on or after 15 December 2022.
- For the revised Section 905: in relation to assurance engagements with respect to underlying subject matters covering periods of time, effective for periods beginning on or after 15 December 2022; otherwise, effective as of 15 December 2022.
- For conforming and consequential amendments to other Sections of the Code: effective as of 15 December 2022.

Early adoption will be permitted.